

Markets

Bitcoin-Rigging Criminal Probe Focused on Tie to Tether

By [Matt Robinson](#) and [Tom Schoenberg](#)

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- ▶ DOJ investigating whether Tether was used to prop up Bitcoin
 - ▶ U.S. case part of broader review of possible coin manipulation
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As Bitcoin plunges, the U.S. Justice Department is investigating whether last year's epic rally was fueled in part by manipulation, with traders driving it up with Tether -- a popular but controversial digital token.

While federal prosecutors opened a broad criminal probe into cryptocurrencies months ago, they've recently homed in on suspicions that a tangled web involving Bitcoin, Tether and crypto exchange Bitfinex might have been used to illegally move prices, said three people familiar with the matter.





Bitfinex has the same management team as Tether Ltd., a Hong Kong-based company that created the namesake cryptocurrency. When new coins come to market, they're mostly released on Bitfinex.

Some traders -- as well as academics -- have alleged that these Tethers are used to buy Bitcoin at crucial moments when the value of the more ubiquitous digital token dips. JL van der Velde, the chief executive officer of Tether Ltd. and Bitfinex, has previously rejected such claims.

Bitfinex's general counsel, as well as outside lawyers for the exchange and Tether Ltd., didn't respond to phone calls and emails seeking comment.

The Justice Department's probe adds to an existing inquiry into possible misconduct. Both Tether Ltd. and Bitfinex received subpoenas last year from the U.S. Commodity Futures Trading Commission, Bloomberg reported in January. The Justice Department and CFTC are coordinating their examinations, the people said.

It couldn't be determined whether government officials are solely investigating activity that occurred on Bitfinex or if exchange executives are suspected of illegal behavior. Neither the Justice Department nor the CFTC has accused anyone of wrongdoing, and authorities may ultimately conclude that nothing illicit occurred.

Spokeswomen for the Justice Department and CFTC declined to comment.

Cryptocurrencies captured investors' attention in 2017 with Bitcoin surging to a record high of about \$20,000 last December. But it's been a different story this year as many on Wall Street

have concluded the market was a fad. Another factor in Bitcoin falling below \$4,225 Tuesday: Scrutiny by government officials, who've repeatedly warned that the mostly unregulated industry is likely rife with fraud.

A focus of the Justice Department's investigation is whether the dramatic rise of digital tokens in recent years was purely driven by actual demand, or was partially fanned on by market tricks. Along with the CFTC, prosecutors have been looking into a number of trading strategies, including spoofing -- the illegal practice of flooding the market with fake orders to trick other traders into buying or selling, Bloomberg reported in May.

While not as well known as Bitcoin, Tether is widely used by traders to bet on price moves for other cryptocurrencies. That's because the token is more stable than other digital coins but remains outside the traditional banking system, making it relatively easy to transfer between different crypto exchanges.

Tether's stability, and it's name, comes from the fact that its value is supposed to be tethered to the U.S. dollar. Tether Ltd. even says that for each digital coin issued, it has \$1 in the bank. Some investors have questioned that claim. One reason the CFTC subpoenaed the company was to seek proof that tokens are backed by a reserve of U.S. dollars, Bloomberg reported in June.

Among the issues the Justice Department is examining is how Tether Ltd. creates new coins and why they enter the market predominantly through Bitfinex, the people said.

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The probe follows allegations made in a June paper by University of Texas Professor John Griffin and co-author Amin Shams. Griffin and Shams wrote that trading in Tether shows a pattern of underpinning, and manipulating, Bitcoin.

They claimed that Tether was used to buy Bitcoin at pivotal periods, and that about half of Bitcoin's 1,400 percent gain last year was attributable to such transactions. Griffin briefed the CFTC on his findings earlier this year, according to two people with direct knowledge of the matter.

Griffin declined to comment on whether he's been contacted by government officials.

After Griffin and Shams published their paper, van der Velde, the Tether Ltd. and Bitfinex CEO, disputed its findings. He said in a statement that "Tether issuances cannot be used to prop up the

price of Bitcoin or any other coin/token on Bitfinex.”

– With assistance by Benjamin Bain, and Matthew Leising

(Updates Bitcoin price in ninth paragraph.)

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